

Message Text

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ACTION IO-14

INFO OCT-01 ISO-00 ABF-01 OMB-01 TRSE-00 SCI-06 IOE-00

AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01 CIAE-00

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P R 021038Z APR 74

FM USMISSION IAEA VIENNA

TO SECSTATE WASHDC PRIORITY 4173

INFO AEC GERMANTOWN

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E.O. 11652: N/A

TAGS: AORG, AFIN, IAEA

SUBJECT: IAEA CY 1975 BUDGET-EFFECTS OF CURRENCY
INSTABILITY

REF: (A) STATE 39239 (B) IAEA VIENNA 1859

(C) IAEA VIENNA 2762

1. SUMMARY: DROP OF PREVAILING US DOLLAR/AUSTRIAN
SCHILLING EXCHANGE RATE OF ABOUT 10.8 PER CENT SINCE
BUDGET ORIGINALLY COSTED HAS PRODUCED GROWING CONSENSUS
THAT SOME MEASURES MUST BE DECIDED UPON BY A&B COMMITTEE
ON APRIL 8 TO DEAL WITH SERIOUS BUDGETARY INSUFFICIENCY
WHILE PRECLUDING REQUIREMENT FOR SUPPLEMENTAL DURING
1975. VIABLE OPTIONS LEFT OPEN AT THIS POINT APPEAR
TO BE SIMPLE INCREASE BY AMOUNT OF INSUFFICIENCY IN
DOLLAR APPROPRIATIONS, OR REPEAT OF CONTINGENT
FINANCING APPROPRIATION USED FOR 1974 BUDGET. IN
MISSION OPINION, LATTER REMAINS MORE DESIREABLE OPTION
FOR US INTERESTS, AND MISSION RECOMMENDS US RECONSIDER
POSITION IN ORDER HEAD OFF SIMPLE INCREASE IN BUDGET
OR OTHER, AND POSSIBLY MORE RADICAL, MEASURES BY
COMMITTEE. ACTION REQUESTED: INSTRUCTIONS FOR A&B
COMMITTEE MEETING. END SUMMARY.

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2. UN EXCHANGE RATE FOR US DOLLAR AGAINST AUSTRIAN SCHILLING HAS DROPPED AGAIN TO AS 18.85 TO US \$1.00 AS OF APRIL 1. BANK BUYING RATE IN VIENNA, AT WHICH AGENCY COULD HAVE PURCHASED SCHILLINGS, WAS EVEN WORSE AT AS 18.74 TO \$1.00 AS OF 10:00 AM APRIL 1. (FYI: US EMBASSY CASHIER'S RATE ON SAME DATE WAS AS 18.60 TO \$1.00 END FYI.) SECRETARIAT PRELIMINARY ANALYSIS SHOWS POTENTIAL CONSEQUENT INSUFFICIENCY IN 1975 BUDGET ESTIMATES CONTAINED GOV/1656 (WHICH WERE CALCULATED AT RATE OF AS 21.00 TO \$1.00) OF ROUGHLY \$2.8-MILLION. SECRETARIAT FURTHER ADVISES THAT STEADY AND UNINTERRUPTED THREE-MONTH DECLINE IN EXCHANGE RATE HAS PROVOKED LARGE NUMBER OF OTHER MISSIONS TO INQUIRE ABOUT EXTENT OF IMPACT ON 1975 BUDGET LEVELS; SECRETARIAT HAS SUPPLIED THEM WITH SAME FIGURE.

3. SINCE DISPATCH REF C, CONSULTATIONS BY MISSION AND SECRETARIAT HAVE DISCLOSED GROWING CONVICTION AMONG PERMANENT MISSIONS THAT SOME STEPS MUST BE DECIDED UPON AT A&B COMMITTEE ON APRIL 8 TO TAKE ACCOUNT OF ABOVE INSUFFICIENCY IN BUDGET ESTIMATES. (MEMBERS OF A&B COMMITTEE CONSULTED SO FAR INCLUDE, INTER ALIA, PHILIPPINES, INDIA, INDONESIA, UK, USSR, SWEDEN, JAPAN, CANADA.) THERE IS UNANIMOUS CONVICTION THAT SIMPLY DOING NOTHING AND UTILIZING SUPPLEMENTAL DURING 1975 IS NOT RPT NOT VIABLE OPTION, EITHER FOR OTHER MEMBERS' DOMESTIC BUDGETARY PROCESSES OR TO ASSURE FULL IMPLEMENTATION OF AGENCY PROGRAM FOR 1975. FURTHER, SEVERAL TAKE POSITION THAT FOR A&B COMMITTEE TO FAIL TO TAKE ACCOUNT OF PROBLEM WHICH NOT MERELY COMING, BUT HERE, WOULD BE DEFAULT ON COMMITTEE AND BOARD RESPONSIBILITY TO PROVIDE SUFFICIENT INSURANCE IN BUDGET FOR IMPLEMENTATION OF PROGRAM IT PROPOSES; THEY WILL ALMOST CERTAINLY SAY SO AT COMMITTEE AND CALL FOR SOME ACTION. SO FAR, THERE IS NO RPT NO GENERAL CONSENSUS ON PROPER MEASURES WHICH SHOULD BE ADOPTED, BUT DISPOSITION SEEMS TO BE THAT IF DG DOES NOT SUGGEST SOMETHING TO COMMITTEE, COMMITTEE SHOULD SUGGEST SOMETHING TO DG AND DIRECT HIM TO MODIFY BUDGET ACCORDINGLY BEFORE JUNE BOARD.

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4. SO FAR, THERE HAS BEEN NO GROUNDSWELL IN FAVOR OF RADICAL MEASURE SUCH AS CHANGE IN CURRENCY OF PAYMENT OR ASSESSMENT OF BUDGET; MOST MEMBERS SEEM DISPOSED TO AWAIT RESULTS OF UN WORKING GROUP ON CURRENCY INSTABILITY BEFORE MAKING BINDING DECISIONS OF SUCH FAR-REACHING NATURE, PROVIDING SOME INTERIM MEASURE CAN BE FOUND TO COPE WITH IMMEDIATE IAEA 1975 SITUATION IN MEANTIME.

5. OPTIONS NOW OPEN TO DG APPEAR TO BE REDUCED TO TWO?
FIRST, BUDGET COULD SIMPLY BE INCREASED BY AMOUNT OF
PROJECTED INSUFFICIENCY AT CURRENT EXCHANGE RATE, WITH
THIS AMOUNT INCLUDED AS SINGLE-LINE ADDITION AT JUNE
BOARD AND, IF PHYSICALLY POSSIBLE, DISTRIBUTED TO
SEPARATE PROGRAM COST FIGURES IN FINAL DOCUMENT PRESENTED
TO GC. THIS AMOUNTS TO RECASTING OF BUDGET AT NEW AND
LOWER EXCHANGE RATE. SECOND, CONTINGENT FINANCING
APPROPRIATION, SUCH AS THAT USED IN 1974 BUDGET, COULD
BE INCLUDED FOR 1975 IN AMOUNT OF PROJECTED INSUFFICIENCY
AT CURRENT EXCHANGE RATE, SUBJECT TO SAME CONDITIONS AS
IN 1975, I.E., FUNDS COULD BE UTILIZED BY DG ONLY WITH
PRIOR CONSENT OF BOARD AND ONLY TO COMPENSATE FOR IN-
SUFFICIENCIES DUE TO DECREASE IN EXCHANGE RATE FROM
THAT AT WHICH BUDGET CALCULATED, UNUTILIZED BALANCE
(IF ANY) WOULD BE RETURNED TO MEMBERS AS CREDIT AGAINST
SUBSEQUENT YEAR'S ASSESSMENT IF NOT REQUIRED DURING
1975, AND DG WOULD COMMIT HIMSELF NOT RPT NOT TO
REQUEST ANY SUPPLEMENTAL IN 1975 FOR THIS PURPOSE.

6. SOME MEMBERS HAVE TENTATIVELY INDICATED THAT THEY
FAVOR FIRST APPROACH (IN FACT, INDIAN AMBASSADOR
SUGGESTED THAT SIMILAR PROVISION SHOULD ALSO BE MADE
FOR SUBSTANTIAL PROJECTED RATE OF INFLATIONARY COST

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ACTION IO-14

INFO OCT-01 ISO-00 ABF-01 OMB-01 TRSE-00 SCI-06 IOE-00

AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01 CIAE-00

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TO SECSTATE WASHDC PRIORITY 4174

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INCREASES FOR 1975, IN ORDER AVOID SUPPLEMENTAL. DG WILL RETURN TO OFFICE ON APRIL 3, AND HIS OPINION NOT YET KNOWN, BUT SECRETARIAT IS NOW INCLINED TO FAVOR SECOND APPROACH FOR FOLLOWING REASONS: A) IT RETAINS BOARD CONTROL OVER FUNDS UNTIL REQUIREMENT FOR THEM DEVELOPS, MAINTAINING TRADITIONAL ROLE OF BOARD AS EXECUTIVE HEAD OF IAEA, AND IS THUS LIKELY TO BE MORE ACCEPTABLE TO SOME MEMBERS WHO WOULD OBJECT TO GIVING DG BLANK CHECK ON BASIS CURRENT INCOMPLETE KNOWLEDGE OF PROBABLE 1975 EXCHANGE SITUATION; B) IT PROTECTS DG FROM PRESSURE (FROM LDC'S OR OTHERS) TO USE FUNDS FOR OTHER PURPOSES IN EVENT THEY NOT REQUIRED TO COMPENSATE FOR CURRENCY PROBLEM DUE TO ANY RECOVERY OF DOLLAR AGAINST SCHILLING BEFORE 1975; C) IT IS MUCH MORE POSSIBLE TO DO DEFENSIBLE JOB OF JUSTIFYING SUCH APPROPRIATION TO GC, IN FACE OF FLUCTUATING EXCHANGE RATE, THAN WOULD BE CASE IF THERE WERE SIMPLE RECASTING OF ENTIRE BUDGET AND DOLLAR RECOVERED AGAINST SCHILLING BEFORE GC.

7. ONLY STUMBLING BLOCK NOW EXISTING TO VIRTUALLY UNANIMOUS SECRETARIAT RECOMMENDATION THAT DG SUGGEST THAT COMMITTEE TAKE CONTINGENT FINANCING APPROACH IS SECRETARIAT AWARENESS OF US POSITION REF A ON QUESTION OF SUCH APPROPRIATION. SECRETARIAT STRESSES THAT THEY LIMITED OFFICIAL USE

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WOULD LIKE TO TAKE ACCOUNT OF US VIEWS, AND HAVE TRIED TO DO SO FOR PAST MONTH IN FACE STEADILY DROPPING EXCHANGE RATE AND GROWING UNEASINESS AMONG OTHER MEMBERS, BUT THEIR OPTION TO CONTINUE TO DO THIS IS RAPIDLY DISAPPEARING, AND IF PUSH CAME TO SHOVE THEY WOULD SUGGEST THAT DG RECOMMEND CONTINGENT FINANCING APPROPRIATION BEFORE SUGGESTING THAT HE ASK COMMITTEE FOR BLANK CHECK IN FORM OF STRAIGHT GENERAL INCREASE IN DRAFT APPROPRIATIONS BASED ON APRIL EXCHANGE RATE. SECRETARIAT (ENROR) HAS ACCORDINGLY INQUIRED WHETHER US WOULD NOW BE WILLING TO ACCEPT AND SUPPORT CONTINGENT FINANCING APPROACH, WITH ADDITIONAL PROTECTION WHICH IT OFFERS TO MAJOR CONTRIBUTORS' MONEY, TO STAVE OFF COMMITTEE DIRECTION THAT DG SIMPLY INCREASE OVERALL BUDGET LEVELS WITHOUT RESTRICTIONS, OR PERHAPS EVEN MORE DRASTIC ACTION(SUCH AS APPROPRIATING ALSO FOR PROJECTED INFLATION, OR CHANGING CURRENCY IF SOMEONE SHOULD PROPOSE AND MAKE A SUPERFICIALLY ACCEPTABLE CASE FOR NOT AWAITING UN WORKING GROUP REPORT).

8. COMMENT: IT IS NOW CLEAR THAT US NO LONGER HAS OPTION OF ASKING SECRETARIAT TO SAY OR DO NOTHING AT ALL ON THIS QUESTION, SINCE, GIVEN NEW LOW FOR 1975

JUST HIT BY EXCHANGE RATE, MEMBERS WILL SAY WHATEVER SECRETARIAT DOES NOT. ONLY CHOICES NOW AVAILABLE LIE BETWEEN INCREASE IN APPROPRIATION WITH RETENTION OF BOARD CONTROL OVER USE OF FUNDS AND WITH USE RESTRICTED AS TO PURPOSE (I.E., CONTINGENT FINANCING), OR INCREASE IN APPROPRIATION WITH NO PARTICULAR BOARD CONTROL RETAINED OVER USE OF FUNDS AND NO WAY OF RESTRICTING PURPOSE (I.E., RECASTING, OR EQUIVALENT). IF US DOES NOT NOW CHOOSE ONE OR OTHER, CHOICE WILL ALMOST CERTAINLY BE MADE FOR US, AND FOR SECRETARIAT AS WELL, BY COMMITTEE.

9. MISSION CONTINUES TO FEEL VERY STRONGLY THAT US'S INTERESTS IN RETAINING MAXIMUM CONTROL OVER FUNDS TO COVER THIS INSUFFICIENCY (OF WHICH WE WILL PAY VERY SUBSTANTIAL SHARE FROM US TAXPAYERS'S MONEY) POINT VERY CLEARLY TO PREFERENCE FOR CONTINGENT FINANCING APPROPRIATION OVER ANY OTHER MEASURE. IF, AS INDICATED REF A, DEPT. FEARS POSSIBLE EFFECT OF PRECEDENT ON OTHER UN AGENCIES LIMITED OFFICIAL USE

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(FEAR WHICH SECRETARIAT DOES NOT RPT NOT SHARE IN VIEW TOTAL LACK OF INTEREST BY OTHER AGENCIES IN THIS APPROACH EVIDENCED DURING RECENT GENEVA CCAQ(BF) DISCUSSIONS OF EXCHANGE RATE INSTABILITY PROBLEM) MISSION SUGGESTS THAT PRECEDENTIAL EFFECT COULD BE MINIMIZED BY US STATEMENT TO COMMITTEE CONDITIONING OUR ACCEPTANCE OF APPROACH UPON: 1) CURRENTLY UNPREDICTABLE WORLD EXCHANGE SITUATION, 2) US SPECIAL INTEREST IN PROTECTING IMPLEMENTATION OF IAEA APPROVED PROGRAM FROM EFFECTS OF THIS, 3) UNUSUAL TIMING OF IAEA BUDGETARY APPROVAL CYCLE, WITH GC ACTION COMING IN FALL RATHER THAN SPRING, AND 4) STATEMENT THAT US DOES NOT REGARD THIS CASE AS APPLICABLE TO OTHER UN SYSTEM ORGANIZATIONS, NOR NECESSARILY TO IAEA IN ANY FUTURE YEAR, AT LEAST PENDING OUTCOME OF UN WORKING GROUP ON THIS PROBLEM AND ANY GENERALLY-APPLICABLE MEASURES WHICH IT MAY SUGGEST AND IN WHICH IAEA WOULD PRESUMABLY FOLLOW LEAD OF REMAINDER OF UN FAMILY.

10. IF FOREGOING ADOPTED, MISSION SEES GOOD CHANCE OF LINING UP COMMITTEE CONSENSUS IN SUPPORT OF CONTINGENT FINANCING APPROPRIATION AGAINST OTHER ALTERNATIVES. IF NOT, MISSION FEELS THAT CHANCES OF PREVENTING AT LEAST UNRESTRICTED ADDITION OF REQUIRED AMOUNT TO BUDGET, AND PERHAPS OTHER MEASURES AS WELL, ARE NOT RPT NOT GOOD. ACCORDINGLY, MISSION RECOMMENDS THAT US RECONSIDER GUIDANCE PROVIDED REF A AND TAKE POSITION FAVORING INSERTION OF APPROPRIATELY-SIZED CONTINGENT FINANCING APPROPRIATION IN 1975 BUDGET BY A&B COMMITTEE.

11. ACTION REQUESTED: INSTRUCTIONS FOR A&B COMMITTEE

MEETING APRIL 8.PORTER

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